

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

BBF3044 – CORPORATE FINANCIAL MANAGEMENT
(All sections / Groups)

26 MAY 2017
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 2 pages with 4 Questions only.
2. Attempt ALL questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Consider the information given below:

Table 1: Stock returns under different states of economy

State of economy	Probability of state of economy	Rate of return if state occurs		
		Stock A	Stock B	Stock C
Normal	0.35	0.08	0.15	0.12
Recession	0.65	0.05	0.03	-0.17

- i. Calculate the expected return on an equally weighted portfolio of the three stocks. (9 marks)
- ii. Calculate the variance and standard deviation of a portfolio invested 25% each in stocks A and B and 50% in stock C. (16 marks)

(Total: 25 marks)

QUESTION 2

- i. What are the advantages for a domestic company, such as Public Bank Berhad to expand business overseas? What are some of the risks to Public Bank? (10 marks)
- ii. Discuss the considerations when choosing between cash and stock as a method of payment in a merger transaction from the perspective of shareholders. (15 marks)

(Total: 25 marks)

QUESTION 3

- i. ZEA Berhad has expected earnings before interest and taxes of RM104,000 in perpetuity. The current capital structure of the company is 100% equity, and its cost of equity is 10%. The company can borrow at an interest rate of 6%. Given the corporate tax rate is 25%, what is the value of the firm? What will be value be if the firm convert to 30% debt? To 80% debt? (15 marks)

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- ii. Discuss the possible reasons for the discrepancies in leverage for industries given in Table 2.

Table 2: Debt-to-equity ratios for Technology and Trading/Services Industries

Industry	Example	2014	2015
Trading/Services (Mass Media)	Astro Malaysia Holdings Berhad	0.52	0.55
Trading/ Services (Telecommunication)	Telekom Malaysia Berhad	0.31	0.29
Technology	Accsoft Technology Berhad	0.09	0
Technology	IFCA MSC Berhad	0	0.01

Source: The Star.

(5 marks)

- iii. Explain why companies are less inclined to issue new equity.

(5 marks)

(Total: 25 marks)

QUESTION 4

Given the following information for Super Power Girl Apparel Co., find the weighted average cost of capital. Assume the company tax rate is 25%.

Debt: 10,000, 7.5% coupon bonds outstanding, 20 years to maturity selling for 95% of par; the bonds make semi-annual coupon payments.

Common stock: 200,000 shares outstanding, selling for RM20 per share, the beta is 1.25.

Preferred stock: 15,000 shares of 6% preferred stock outstanding, currently selling for RM45 per share.

Market: 8% of market risk premium and 3.1% of 3-month Malaysian Treasury Bills.

(Total: 25 marks)

End of Paper